

RE26RC07: Appraisal Process

1. LEARNING TERMINOLOGY: COURT DEFINITIONS AND APPRAISAL INSTITUTE DEFINITIONS

- a. **Definition:** An appraisal is an unbiased estimate of the nature, quality, value or utility of an interest in, or aspect of, identified real estate.
* Appraisal is a valuation and an evaluation.
- b. **Definition** Valuation is the process of estimating market value, investment value, insurable value, or other property defined value of an identified interest in a specific parcel at a given date.
- c. **Definition:** Evaluation is a study of the nature, quality, or utility of a parcel of real estate without reference to a value estimate
- d. **Definition differences between states or countries.**
- e. **Global appraisal standard differences and standardization through RICS, UPAV, TINSA.**

2. THE DIFFERENT LEVELS AND REQUIREMENTS OF A LICENSED APPRAISER AND RECOMMENDING THE APPROPRIATE LEVEL TO YOUR CLIENT:

- Licensed Trainee
- Licensed Appraiser
- Certified Residential
- Certified General
- Trade designations: MAI, RSA, SRA
- Now need a 4 year college degree to earn a license

3. WHAT ARE THE FEDERAL REGULATIONS THAT AN APPRAISER FOLLOWS UNLIKE A BROKER DEVELOPING A CMA?

- CMA are now being regulated in some states: it is not a valuation but a “suggested listing price” consumer understanding the differences.
- Uniform Standards of Professional Appraisal Practices (USPAP). What is it and how does it regulate appraisal reports?
- Background on the Appraisal Foundation and the Appraisal Standards Board and why they were formed. Review of 1989 Savings and Loan Crisis and FIRREA
- Summary discussion about the Federal Yellowbook.
- How do appraisers differ for residential, multi-family and commercial properties?

4. APPRAISAL INSTITUTE'S DEFINITION OF APPRAISAL PROCESS and HOW ITS USED IN MASSACHUSETTS

- a. Concepts of Land
 - i. Geographic
 - ii. Legal
 - iii. Social
 - iv. Economic
- b. Appraisal
 - i. Discipline of Appraisal
 - ii. Real Estate, Real Property and Personal Property
 - iii. Definition of Appraisal
- c. Valuation Process
 - i. Definition of the Problem
 - ii. There are over 32 types of value and a number of methodologies. Each value dictates a different appraisal methodology and approach.
 - iii. Preliminary Analysis and Data Selection and Collection
 1. General

2. Specific
- iv. Highest and Best Use Analysis: How is this analysis to the foundation of valuation? What is legally permitted?
- v. Land Value Estimate
- vi. Application of the 3 Approaches:
 1. Sales
 2. Income
 3. Cost
- vii. Reconciliation of Value Indications and Final Value Cost
- viii. Report of Defined Value
- ix. Any updates necessary due to new Federal, USPAP or Congressional changes

5. REPORT WRITING in GENERAL

- Function of a report is to lead a reader from the definition of an appraisal problem to a specific conclusion through reasoning and relevant descriptive data.
- Appraiser's facts, reasoning, and conclusions must be presented clearly and succinctly.
- Length of report is not as relevant.
- Can be oral or written but usually decided by client.
- If oral, still must have detailed documentation.
- Must be meaningful to a client and not misleading in the market.
- What are the ingredients to an appraisal report?

6. INDUSTRY STANDARDS FOR REPORTING

- The Appraisal Institute sets minimum requirements for its own members on contents, facts, descriptions and statements of work and purpose in all types of appraisal reports.
- In Massachusetts and elsewhere the report should include the following:
 - i. Complete description of the appraised real estate.
 - ii. Who is the Intended User, Purpose and Distribution? Scope of Work
 - iii. Explanation of assumptions, limitations and disclaimers.
 - iv. Competency of Appraiser for the assignment. How can an out-of-state appraiser be engaged? What is the definition of competent and how does the appraiser disclose competency.
 - v. All significant facts used.
 - vi. Reasonable complete summary.
 - vii. Date of valuation and report.
 - viii. Statement of the Interest Appraised.
 - ix. Disclaimer Statements and why they are important to the reader and appraiser.
 - x. Clear Statement of any smaller parcels of larger parcels.
 - xi. That the appraiser has no interest or personal bias to the parties involved.
 - xii. Certified statement that the appraiser did or did not inspect the property and the facts reported are true.
 - xiii. Statement of report distribution and intended use.

7. THE APPRAISAL PROCESS EXPERIENCED IN MASSACHUSETTS

- **Definition:** Opinion of Value at that point in time between two able and willing parties that want to sell and buy.
- Fair Market Value: What is "fair"? How does fair differ from "current market value?"
- Appraisal includes 3 Approaches: Market, Income and Cost Approach. When are they used or not used?
- Law of Supply & Demand is the basis for the 3 appraisal approaches. What is its definition?

8. THE LAW OF SUPPLY AND DEMAND

- Assumes that the market is "perfect."
- Assumes perfect knowledge of the product.
- Assumes An Active market with no monopolies of buyers/sellers or large enough to affect prices.
- Assumes homogeneous product: that all comparables are the same.
- Assumes all cash transactions, no financing.
- Assumes Easy Entry into the Market by All Interested Buyers.

9. MARKET APPROACH

- **Definition:** Price that equates the supply of real estate to the demand for real estate.
- In Massachusetts, how does an appraiser find market information?
- Sales Comparable: Massachusetts Town Hall recent reports.
- MLS should have zoning district and not state as "residential" or "commercial" Needs to be specific.
- Is the property commercial or "mixed use"? Clarity is relevant.
- Massachusetts Brokers: For lease and sales information. Discuss how a broker can help an appraiser with data and market information.
- Trade journals and market reports.
- Appraiser should be discussing the market with market area brokers.

10. INCOME APPROACH

- **Definition:** Price that equates the supply of income streams to the demand for income streams.
- This approach works better for investment property rather than owner-occupied.
- Calculate net income.
- Impose any variations in operating expenses with vacancy rate and reserves.
- Impose a Capitalization Rate; Massachusetts Examples.
- Determines potential value to investor.
- Massachusetts Information from sales comparables, talking to investors, researching alternative investments, talking to investment brokers, etc.
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11. COST APPROACH

- **Definition:** Price that equates the supply of material and labor to the demand for material and labor.
- Strictly "bricks and mortar" approach.
- Cost to rebuild the same structure on the same site.
- Estimates from brokers, construction firms, architects, trade journals ie. Dodge Report.

12. SAMPLE OF COMPLETED or PORTION OF A MASSACHUSETTS APPRAISAL